

Measuring Marketing Performance

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Marketing is a necessary investment for generating and maintaining profit, rather than just an expense. Finding, getting, and retaining business costs money. As a result, marketing executives need to know the return on investment (ROI) of their marketing expenditure. However, measuring marketing activities can be problematic. To take a simple example, the investment in an advertising campaign is easy to establish, but calculating the results is imprecise because so many other factors impact sales. To overcome the problem, many companies are looking at activities that can be measured more precisely, such as direct marketing and online advertising where response rates are easily measured.

What You Need to Know

How easy is it to measure marketing performance?

Industry research indicates that many companies have not yet established satisfactory methods for measuring marketing performance. A 2004 survey of U.S. technology marketing executives reported that less than 20% of the companies surveyed had developed meaningful measures for their marketing organizations, and over 80% of the companies surveyed expressed dissatisfaction with their ability to benchmark their marketing programs' business impact and value. A survey of 160 European companies in the summer of 2005 showed similar results. Less than 20% of the companies had developed meaningful measures of marketing activities, and over 80% were dissatisfied with their ability to measure marketing value.

What to Do

Agree on the Measurements

The objective of measuring marketing performance is to improve the management of marketing assets by providing quantitative evidence for decision-making. So before collecting data, it is important to consider how the data will clarify understanding of the current marketing situation. A number of different approaches to marketing measurement are in current use. They include:

- incremental sales revenue resulting from a campaign;
- ratio of cost to revenue;
- cost per sale generated;
- changes in value of sales generated;

- cost of new customer acquisition;
- cost of customer retention.

Set Measurable Objectives

To support effective measurement, it is important to set clear goals for a marketing campaign. In advertising, for example, there is no single overriding objective, so it is essential to identify specific measurable tasks. These can take many different forms:

- Raise awareness of a company, product, or service among a clearly identified target market.
- Communicate the benefits of a product or service.
- Generate leads for the sales force or retail network.
- Encourage prospects to buy directly through a direct response campaign.
- Persuade prospects to switch brands.
- Support a special marketing event such as a sale or an exhibition.
- Ensure that customers know where to obtain the product.
- Build confidence in an organization.

To ensure a cost-effective campaign that delivers results, these objectives should be translated into precise, measurable objectives. This is an example for a business product:

- target market—5,000 design engineers
- marketing objective—increase market share to 20 percent
- advertising objective—raise product awareness with 40% of design engineers.

Track Leads to Buyers

For many companies, the marketing goal is to identify and cultivate potential buyers and then track whether they respond to marketing efforts by ultimately making a purchase. Measurements like these can help to focus expenditure on the most effective marketing media.

Measure Value As Well As Response

One way to measure the effectiveness of marketing programs is to compare their costs and results. Most marketing programs such as advertisements or direct mail generate “marketing contacts.” However some contacts have a higher value than others, depending on the number and quality of

responses they generate. Simply calculating the cost per contact is not enough. The measurements must calculate the value of the results.

With direct marketing, it is possible to measure immediate results such as numbers of orders, revenue, or profit per order. These can then be related to cost to calculate profit per program. However, direct marketing is an exception, most marketing programs generate sales that either cannot be traced to a specific promotion or are made by a third party such as a retailer or dealer who does not report them to the advertiser at all.

Measure Changing Brand Awareness

Customer perceptions change over a period of time, particularly when companies run targeted communications programs. It is important to carry out continuous research to monitor changes in customer attitude. This type of research is known as tracking research and it helps measure the effectiveness of brand communications programs. Brand metrics like these measure attitudes to a product on the assumption that these are indicators of future purchases. The metrics include awareness and knowledge of the brand, preferences for the brand versus its competitors, purchase intentions, and product satisfaction. It should therefore be possible to correlate marketing programs with changes in brand metrics and then correlate changes in brand metrics with future sales. That would make it possible to calculate a long-term return on marketing investment.

Measure Customer Value

Customer value metrics can be used to estimate future purchases by individual customers and customer segments. Although they are concerned with the future, customer value metrics are derived from historical data including retention and purchase rates. This data can be combined to estimate the future value of a new customer and used to measure the return on investment of specific marketing programs. Information like this can be used for targeting promotions and tailoring service treatments. It also allows companies to track customers as they move through the buying process and to estimate the long-term impact of marketing campaigns that may not generate an immediate response.

Calculate Lifetime Customer Value

Customer lifetime value is a way of measuring how much customers are worth to a business over the length of time that they are customers. The lifetime for customers will vary from industry to industry and from brand to brand within a single organization. The lifetime of customers comes to an end when their contribution becomes so small as to be insignificant, unless steps are taken to revitalize them. Industry experience indicates that:

- a 5% increase in customer retention could create a 125% increase in profits;
- a 10% increase in retailer retention can translate to a 20% increase in sales;
- extending customer lifecycles by 3 years could treble profits per customer.

Before calculating lifetime customer value, it is important to break customers down into four key categories. This can help to clarify analysis and act as the basis for marketing actions to improve lifetime customer value.

- A good customer is a long-term customer who regularly buys a profitable product and who has bought recently.
- A new customer may be the best customer of all since their lifetime value has yet to be realized.
- An old customer who does not buy regularly, and has not bought recently, is probably not a customer at all.
- A lapsed customer who has been rerecruited often behaves like a new customer.

Customer lifetime value is calculated by analyzing the behavior of a group of customers who have the same recruitment date.

- Isolate particular customers and examine them individually.
- Analyze the behavior of different groups, segmenting your customer database by factors such as industry, annual turnover, or staff numbers.

The basic calculation has three stages.

- Identify a discrete group of customers for tracking.
- Record (or estimate) each revenue and cost for this group of customers by campaign or season.
- Calculate the contribution by campaign or season.

Measure the Cost of Marketing Activities

Another form of measurement is efficiency metrics, which describe the cost of implementing marketing programs and campaigns. The two main metrics are staff hours per project and cycle time per project. Cycle time can be important because getting a program into the field quickly can improve results, for example, by being first to market or avoiding competitive actions.

Concentrate on the Bigger Picture

To get a clear picture of the effectiveness of marketing, it is important to take a variety of measurements that captures the full spectrum of marketing activities, not just individual campaign results. It is easy to become focused on the final steps of the marketing and sales process to the

detriment of brand building and other earlier steps that eventually lead to sales success. Broadening measurements to include all phases of marketing makes it possible to measure success at key milestones in the marketing and sales process. Focusing only on leads and sales appointments may improve short-term results, but sacrifice long-term sales, because no new prospects are in the marketing pipeline. Similarly, focusing solely on brand building may leave a sales force short on leads. A broad perspective is important.

What to Avoid

You Fail to Measure the Real Return on Investment

The purpose of marketing is to maximize the generation of profitable revenue. A measurement such as sales revenue is therefore insufficient to measure overall marketing performance, as it does not relate to profit. Profitable revenue is defined as sales revenue less the total direct and indirect marketing costs. While measuring sales revenue is relatively easy, establishing the total direct and indirect costs of marketing requires a detailed understanding of the full extent of marketing activities.

Where to Learn More

Books:

Johnson, Michael D, and Anders Gustafsson, *Improving Customer Satisfaction, Loyalty, and Profit: An Integrated Measurement and Management System*. Jossey Bass, 2000.

Web Site:

B2B Marketing Trends: www.b2bmarketingtrends.com